COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5471-01
Bill No.: HB 1669
Subject: Tax Credits; Business and Commerce; Agriculture and Animals
Type: Original
Date: March 5, 2014

Bill Summary: This proposal authorizes a tax credit for the establishment of full-service grocery stores in food deserts.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	$0	$0 to ($25,000,000)	$0 to ($25,000,000)
Total Estimated Net Effect on General Revenue Fund	**$0**	**$0 to ($25,000,000)**	**$0 to ($25,000,000)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☐ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

This proposal authorizes a full-service grocery store to be eligible for a 50% tax credit on all eligible expense incurred in opening a new location (lease of building, transfer of title, or transfer of possession) in a classified food desert area. The tax credit is non-refundable and has a three year carryover provision. A qualified applicant is only eligible for up to $2.5 million each year and the program has an annual cap of $25 million.

Officials at the **Office of Administration's Division of Budget and Planning** (**BAP**) assume this proposal would not fiscally impact BAP. This proposal could lower General and Total State Revenues by up to $25 million.

It appears the intent of the proposal is to give tax credits to entities locating full-service grocery stores in "food deserts"; however, the language does not limit the tax credit to locations in "food deserts". Section 135.1620.2 allows the tax credit for "eligible expenses". Subsection 135.1620.1(3) defines "eligible expenses" as those related to establishing a "full-service grocery store" and is not limited to those stores established in a "food desert". The amount of tax credits authorized could be higher if the credits are not limited to stores located in "food deserts" although the $25 million cap limits the total amount of credits authorized.

Officials at the **Department of Economic Development** (**DED**) assume this proposal will require two additional FTE (Economic Development Incentive Specialist II) for reviewing applications, approving applications, creating program guidelines, issuing tax credits, ensuring compliance with guidelines and other administrative functions. DED assumes a negative impact ranging from $0 - $25 million as a result of this proposal.

Oversight assumes that due to the limited number of individuals that may be able to claim this credit, the Department of Economic Development could absorb the administration of this credit with existing resources.

Officials at the **Department of Revenue** (**DOR**) assume this proposal would require computer programming changes to the individual and corporate tax filing systems at a estimated cost of $27,518 for 1,008 FTE hours. The Personal Tax Division would require one Revenue Processing Technician I for every 6,000 credits claimed. The Corporate Tax Division would need three Revenue Processing Technicians for tax credit redemptions, credit transfers, compliance mailings and correspondence.

ASSUMPTION (continued)

Oversight assumes DOR is provided with core funding to handle a certain amount of computer programming activity each year. Oversight assumes DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

Oversight assumes DOR's Personal and Corporate Tax Divisions could absorb the responsibilities of this tax credit with existing resources. Should DOR experience the number of additional tax credit redemptions to justify another FTE, they could seek that FTE through the appropriation process.

Oversight assumes this proposal begins with tax years starting January 1, 2015, and therefore, the first time this would be claimed on a taxpayer's tax return would be FY 2016. Oversight will reflect the impact as $0 (no credits claimed) to the $25 million annual cap.

FISCAL IMPACT - State Government	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE			
Revenue Reduction - creation of the grocery store tax credit	$0	$0 to ($25,000,000)	$0 to ($25,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0**	**$0 to ($25,000,000)**	**$0 to ($25,000,000)**

FISCAL IMPACT - Local Government	FY 2015 (10 Mo.)	FY 2016	FY 2017
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that qualify for the tax credit may be impacted.

FISCAL DESCRIPTION

This bill creates a tax credit for full-service grocery stores located in a food desert. A food desert is a census tract that has a poverty rate of at least 20% or a median family income of less than 80% of the statewide average featuring at least 500 people or 33% of the population located at least one-half a mile from a full-service grocery store in the urban areas or 10 miles in rural areas.

A taxpayer is allowed to claim a tax credit against its state tax liability in the amount equal to 50% of the amount incurred in the construction or development of property for the purpose of establishing a full-service grocery store by the taxpayer after an initial expense of $1 million.

The amount of the tax credit cannot exceed the amount of the taxpayer's state tax liability for the year and the taxpayer may not claim a credit more than $2.5 million dollars per year. If the credit is more than the taxpayer's tax liability for the year, the credit may be carried over to the next three years until the full credit has been claimed.

The amount of credits authorized can not exceed $25 million in any calendar year and can be transferred, sold or assigned. A taxpayer must repay the credits if the taxpayer fails to complete construction of a full-service grocery store within five years or fails to operate a full-service grocery store at the same new location for at least 10 consecutive years.

The provision of the bill will expire six years from the effective date.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

JH:LR:OD

SOURCES OF INFORMATION

Department of Economic Development
Office of Administration
   Division of Budget and Planning
Department of Revenue

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March 5, 2014

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March 5, 2014

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